Condensed Interim Consolidated Financial Statements

BRITISH COLUMBIA FERRY SERVICES INC.

For the nine months ended December 31, 2019 and 2018
(Unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Financial Position (unaudited)
(Expressed in thousands of Canadian dollars)

	Note	December 31, 2019	March 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**227,409**	59,888
Restricted short-term investments	6(b)	**33,588**	31,651
Other short-term investments		**120,632**	74,648
Trade and other receivables		**25,743**	23,246
Prepaid expenses		**12,687**	8,306
Inventories		**31,766**	30,870
Derivative assets	9	**2,514**	8,145
		454,339	236,754
Non-current assets			
Loan receivable		**24,515**	24,515
Property, plant and equipment	3	**1,831,438**	1,820,232
Intangible assets	4	**101,097**	101,029
Derivative assets	9	**955**	-
		1,958,005	1,945,776
Total assets		**2,412,344**	2,182,530
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**37,405**	80,173
Interest payable on long-term debt	5	**17,610**	18,429
Contract liabilities		**21,361**	28,709
Current portion of long-term debt	5,6	**25,374**	57,183
Current portion of accrued employee future benefits		**2,000**	2,000
Current portion of lease liabilities	5	**2,406**	2,184
Provisions		**67,637**	62,778
Derivative liabilities	9	**1**	-
		173,794	251,456
Non-current liabilities			
Accrued employee future benefits		**20,913**	20,583
Long-term debt	5,6	**1,434,547**	1,222,860
Lease liabilities	5	**39,317**	39,797
Other liabilities	7	**11,209**	9,516
Derivative liabilities	9	**145**	-
		1,506,131	1,292,756
Total liabilities		**1,679,925**	1,544,212
Equity			
Share capital		**75,478**	75,478
Contributed surplus		**25,000**	25,000
Retained earnings		**623,867**	525,006
Total equity before reserves		**724,345**	625,484
Reserves	10(a)	**8,074**	12,834
Total equity including reserves		**732,419**	638,318
Total liabilities and equity		**2,412,344**	2,182,530

Commitments (Note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income (unaudited)
(Expressed in thousands of Canadian dollars)

	Note	Three months ended December 31 **2019**	2018	Nine months ended December 31 **2019**	2018
Revenue					
Vehicle and passenger fares		**134,699**	134,020	**513,691**	505,634
Net retail	11	**14,583**	14,200	**55,249**	52,820
Fuel surcharges (rebates)	16	**1,620**	-	**5,440**	(4,584)
Other income		**2,754**	2,297	**9,323**	8,537
Revenue from customers		**153,656**	150,517	**583,703**	562,407
Ferry service fees		**49,457**	49,554	**179,445**	167,934
Federal-Provincial Subsidy Agreement		**7,835**	7,626	**23,505**	22,878
Total revenue		**210,948**	207,697	**786,653**	753,219
Expenses	12,14				
Operations		**128,339**	122,759	**421,258**	401,294
Maintenance		**22,166**	22,355	**61,918**	60,289
Administration		**9,312**	9,654	**27,279**	29,348
Depreciation and amortization		**45,913**	43,568	**136,375**	128,514
Total operating expenses		**205,730**	198,336	**646,830**	619,445
Operating profit		**5,218**	9,361	**139,823**	133,774
Net finance and other expenses	13				
Finance expenses		**16,056**	14,713	**46,377**	44,953
Finance income		**(2,520)**	(1,701)	**(5,201)**	(4,568)
Net finance expense		**13,536**	13,012	**41,176**	40,385
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets		**(8)**	30	**(214)**	173
Net finance and other expenses		**13,528**	13,042	**40,962**	40,558
NET (LOSS) EARNINGS		**(8,310)**	(3,681)	**98,861**	93,216
Other comprehensive income (loss)	10(b)				
Items that are or may be reclassified subsequently to net earnings		**4,645**	(10,962)	**755**	(1,638)
Items that will not be reclassified to net earnings		-	-	**(126)**	-
Total other comprehensive income (loss)		**4,645**	(10,962)	**629**	(1,638)
Total comprehensive (loss) income		**(3,665)**	(14,643)	**99,490**	91,578

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2019	2018
Operating activities		
Net earnings	**98,861**	93,216
Items not affecting cash:		
Net finance expense	**41,176**	40,385
Depreciation and amortization	**136,375**	128,514
(Gain) loss on disposal and revaluation of property, plant and equipment and intangible assets	**(214)**	173
Other non-cash changes to property, plant and equipment	**(686)**	199
Changes in:		
Accrued employee future benefits	**204**	(1,782)
Derivative assets and liabilities recognized in net earnings	**2**	59
Provisions	**4,859**	3,351
Accrued financing costs	**89**	(47)
Total non-cash items	**181,805**	170,852
Movements in operating working capital:		
Trade and other receivables	**(2,497)**	(1,033)
Prepaid expenses	**(4,381)**	(2,831)
Inventories	**(896)**	1,163
Accounts payable and accrued liabilities	**(42,768)**	(4,314)
Contract liabilities	**(7,348)**	(4,143)
Change in non-cash working capital	**(57,890)**	(11,158)
Change attributable to capital asset acquisitions	**32,324**	3,704
Change in non-cash operating working capital	**(25,566)**	(7,454)
Cash generated from operating activities	**255,100**	256,614
Interest received	**5,272**	4,333
Interest paid	**(50,468)**	(51,110)
Cash generated by operating activities	**209,904**	209,837

BRITISH COLUMBIA FERRY SERVICES INC.
Condensed Interim Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Nine months ended December 31	
	2019	2018
Financing activities		
Repayment of long-term debt	**(69,212)**	(24,211)
Repayment of lease liabilities	**(1,650)**	(1,623)
Proceeds from the issue of bonds	**250,000**	-
Transactions costs related to bonds	**(1,587)**	-
Cash from (used in) financing activities	**177,551**	(25,834)
Investing activities		
Proceeds from disposal of property, plant and equipment	**309**	46
Purchase of property, plant and equipment and intangible assets	**(172,322)**	(168,516)
Changes in debt service reserve	**(1,937)**	435
Net (purchase of) proceeds from short-term investments	**(45,984)**	23,761
Cash used in investing activities	**(219,934)**	(144,274)
Net increase in cash and cash equivalents	**167,521**	39,729
Cash and cash equivalents, beginning of period	**59,888**	69,913
Cash and cash equivalents, end of period	**227,409**	109,642

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

BRITISH COLUMBIA FERRY SERVICES INC.

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)
(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (Note 10)	Total equity including reserves
Balance as at April 1, 2018	75,478	25,000	478,855	579,333	8,974	588,307
Net earnings	-	-	93,216	93,216	-	93,216
Other comprehensive loss	-	-	-	-	(1,638)	(1,638)
Realized hedge gains recognized in fuel swaps	-	-	-	-	(9,736)	(9,736)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2018	75,478	25,000	572,071	672,549	(2,214)	670,335
Balance as at April 1, 2019	**75,478**	**25,000**	**525,006**	**625,484**	**12,834**	**638,318**
Net earnings	-	-	98,861	98,861	-	98,861
Other comprehensive income	-	-	-	-	629	629
Realized hedge gains recognized in fuel swaps	-	-	-	-	(5,575)	(5,575)
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	186	186
Balance as at December 31, 2019	**75,478**	**25,000**	**623,867**	**724,345**	**8,074**	**732,419**

British Columbia Ferry Services Inc. (the "Company") was incorporated under the *Company Act (British Columbia)* by way of conversion on April 2, 2003, and now validly exists under the *Business Corporations Act (British Columbia)*. The Company's primary business activity is the provision of coastal ferry services in British Columbia.

The Company is subject to the *Coastal Ferry Act* (the "Act") as amended, which originally came into force on April 1, 2003. Its common share is held by the B.C. Ferry Authority (the "Authority"), a corporation without share capital, and it is regulated by the British Columbia Ferries Commissioner (the "Commissioner") to ensure that rates are fair and reasonable and to monitor service levels.

The Company's business is seasonal in nature, with the highest activity in the summer (second fiscal quarter) and the lowest activity in the winter (fourth fiscal quarter), due to the high number of leisure travellers and their preference for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

1. Accounting policies:

(a) Reporting entity:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These condensed interim consolidated financial statements, as at and for the nine months ended December 31, 2019 and 2018, comprise the Company and its subsidiaries (together referred to as the "Group").

(b) Basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended March 31, 2019, as they follow the same accounting policies. For changes in accounting policies effective April 1, 2019, refer to Note 2.

These condensed interim consolidated financial statements have been prepared using the historical cost method, except for owned land, head office land under lease and certain financial assets and liabilities including derivatives.

These condensed interim consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in thousands of Canadian dollars.

These condensed interim consolidated financial statements were approved by the Board of Directors on February 21, 2020.

2. Adoption of new and amended standards:

Changes in accounting policies:

Amendments to IAS 19 *Employee Benefits*:

On February 7, 2018, the IASB published Amendments to IAS 19 *Employee Benefits*. The amendments to IAS 19 require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The Group adopted IAS 19 effective April 1, 2019, and the requirements of these amendments will be applied to all plan amendments, curtailments or settlements occurring after this date. There was no adjustment to the condensed interim consolidated financial statements as a result of this adoption.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Property, plant and equipment:

	Vessels	Berths, buildings and equipment	Right-of-use assets - berths, buildings and equipment	Right-of-use assets - land	Land	Construction in progress	Total
Cost:							
Balance as at March 31, 2019	1,627,311	655,543	173,548	40,868	24,714	196,359	2,718,343
Additions	(932)[1]	-	1,136	256	-	134,660	135,120
Disposals	(29,798)	(3,014)	-	-	-	-	(32,812)
Transfers from construction in progress	156,834	19,849	-	-	478	(177,161)	-
Balance as at December 31, 2019	**1,753,415**	**672,378**	**174,684**	**41,124**	**25,192**	**153,858**	**2,820,651**
Accumulated depreciation:							
Balance as at March 31, 2019	624,593	205,671	67,241	606	-	-	898,111
Depreciation	92,277	25,857	5,134	550	-	-	123,818
Disposals	(29,716)	(3,000)	-	-	-	-	(32,716)
Balance as at December 31, 2019	**687,154**	**228,528**	**72,375**	**1,156**	**-**	**-**	**989,213**
Net carrying value:							
As at March 31, 2019	1,002,718	449,872	106,307	40,262	24,714	196,359	1,820,232
As at December 31, 2019	**1,066,261**	**443,850**	**102,309**	**39,968**	**25,192**	**153,858**	**1,831,438**

[1] Reclassifications from Other liabilities (Note 7)

3. Property, plant and equipment (continued):

During the nine months ended December 31, 2019, financing costs capitalized during construction amounted to $3.2 million (December 31, 2018: $4.7 million) with an average capitalization rate of 4.99% (December 31, 2018: 5.01%).

Contractual commitments as at December 31, 2019, for assets to be constructed totalled $320.6 million (March 31, 2019: $47.5 million). The majority of these contractual commitments relate to the construction of four Island class vessels and one Salish class vessel.

The Government of Canada, through the New Building Canada Fund, agreed to provide funding of up to $43.4 million to help offset the costs of the newly established route connecting Port Hardy and Bella Coola and the replacement of two minor vessels. During the nine months ended December 31, 2019, the Group recorded $6.4 million (December 31, 2018: $10.5 million) as a reduction of the cost of property, plant and equipment as a result of funding provided. Funding of $29.5 million was recorded as a cumulative reduction of the cost of the property, plant and equipment in fiscal years 2019 and 2018.

FortisBC Energy Inc. has committed to provide the Group with funding as part of the Natural Gas for Transportation (“NGT”) incentive funding. The contributions are dependent upon the purchase of liquified natural gas (“LNG”). During the nine months ended December 31, 2019, $0.9 million (December 31, 2018: $0.8 million) was recognized as a reduction of the cost of property, plant and equipment.

During the nine months ended December 31, 2019, the Group received $0.8 million (December 31, 2018: $0.8 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $3.9 million, respectively, as at December 31, 2019.

The *Howe Sound Queen* (decommissioned during the three months ended June 30, 2019) was sold in August 2019. The *Queen of Burnaby* (decommissioned during the year ended March 31, 2018) is classified as held for sale and has no carrying value.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Intangible assets:

	Acquired software, licenses and rights	Internally developed software and website	Assets under development	Total
Cost:				
Balance as at March 31, 2019	130,335	18,887	22,297	171,519
Additions	-	-	12,625	12,625
Disposals	(169)	-	-	(169)
Transfers from assets under development	3,989	1	(3,990)	-
Balance as at December 31, 2019	**134,155**	**18,888**	**30,932**	**183,975**
Accumulated amortization:				
Balance as at March 31, 2019	58,879	11,611	-	70,490
Amortization	11,598	959	-	12,557
Disposals	(169)	-	-	(169)
Balance as at December 31, 2019	**70,308**	**12,570**	-	**82,878**
Net carrying value:				
As at March 31, 2019	71,456	7,276	22,297	101,029
As at December 31, 2019	**63,847**	**6,318**	**30,932**	**101,097**

Capitalized financing costs during construction for intangible assets with an average capitalization rate of 4.99% for the nine months ended December 31, 2019 totalled $0.8 million (December 31, 2018: $0.5 million).

During the nine months ended December 31, 2019, intangible assets totalling $7.5 million (December 31, 2018: $6.3 million) were acquired and $5.1 million (December 31, 2018: $6.2 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Liabilities arising from financing activities:

	Long-term debt	Lease liabilities[1]	Interest payable on long-term debt
Balance as at March 31, 2019	1,280,043	41,981	18,429
Additions	250,000	1,392	47,872
Payments	(69,212)	(1,650)	(48,691)
Additions to debt issue costs	(1,587)	-	-
Amortization of debt issue costs and bond discounts	677	-	-
Balance as at December 31, 2019	**1,459,921**	**41,723**	**17,610**
Current	25,374	2,406	17,610
Non-current	1,434,547	39,317	-
Balance as at December 31, 2019	**1,459,921**	**41,723**	**17,610**

[1] Interest expense related to Lease liabilities is presented in Net finance expense (Note 13).

(Tabular amounts expressed in thousands of Canadian dollars)

6. Loans:

	As at	
Long-term debt:	**December 31, 2019**	March 31, 2019
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	**250,000**	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	**250,000**	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	**200,000**	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	**200,000**	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	**200,000**	200,000
2.79% Senior Secured Bonds, Series 19-1, due October 2049 (effective interest rate of 2.83%)	**250,000**	-
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	**1,875**	7,500
Tranche B (floating interest rate of 2.34% at March 31, 2019)	**-**	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	**3,750**	9,375
Tranche B (floating interest rate of 2.32% at March 31, 2019)	**-**	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	**13,500**	18,000
2.09% Loan, maturing October 2028 (effective interest rate of 2.70%)	**33,634**	36,437
2.09% Loan, maturing January 2029 (effective interest rate of 2.68%)	**34,881**	37,710
2.09% Loan, maturing January 2029 (effective interest rate of 2.70%)	**34,881**	37,710
	1,472,521	1,291,732
Less: Unamortized deferred financing costs and bond discounts	**(12,600)**	(11,689)
Balance as at December 31, 2019	**1,459,921**	1,280,043
Current	**25,374**	57,183
Non-current	**1,434,547**	1,222,860
Balance as at December 31, 2019	**1,459,921**	1,280,043

6. Loans (continued):

(a) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on March 6, 2019 to extend the maturity date to April 20, 2024. There were no draws on this credit facility as at December 31, 2019 and as at March 31, 2019. There was no interest expensed during the nine months ended December 31, 2019 and December 31, 2018. Letters of credit outstanding against this facility as at December 31, 2019 totalled $0.2 million (March 31, 2019: $0.1 million).

(b) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at December 31, 2019, debt service reserves of $33.6 million (March 31, 2019: $31.6 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

(c) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement. As at December 31, 2019, the debt service coverage ratio was 2.97.

In addition, there are other covenants contained in the Master Trust Indenture (“MTI”) (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at December 31, 2019 and at March 31, 2019.

(d) Bonds:

On October 15, 2019, the Group issued $250.0 million of senior secured bonds and established a debt service reserve for these bonds in the amount of $3.5 million. The Series 19-1 bonds bear interest at 2.794% per annum, payable semi-annually and will mature October 15, 2049. The net proceeds from the sale of the bonds will be used, together with additional cash on hand, to provide funding for capital expenditures and general corporate purposes, and to fund the series reserve account.

In December 2019, the Group fully paid the outstanding Tranche B balance of both KfW 12 year loans ($22.5 million each) with a portion of the net proceeds.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Other liabilities:

FortisBC Energy Inc. has committed to provide the Group with funding as part of the NGT incentive funding. The funding is dependent upon the purchase of LNG and the incremental costs of building/converting vessels to be capable of using LNG for propulsion.

As of March 31, 2018, the Group had received all of the eligible contributions related to the Salish Class vessels. During the nine months ended December 31, 2019, the Group recorded $2.6 million of the total contribution of up to $10.0 million to be applied towards the mid-life upgrade, including conversion to LNG, of the two Spirit class vessels. As at December 31, 2019, the Group has received a total of $13.0 million in contributions related to the Spirit Class and Salish Class vessels.

During the nine months ended December 31, 2019, the Group recognized $0.9 million (March 31, 2019: $0.9 million) as an offset to the capital costs of the vessels.

	Salish Class	**Spirit Class**	**Total**
Balance as at March 31, 2019	5,489	4,027	9,516
Additions	-	2,625	2,625
Reclassifications to property, plant and equipment (Note 3)	(381)	(551)	(932)
Balance as at December 31, 2019	**5,108**	**6,101**	**11,209**

8. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at December 31, 2019 and March 31, 2019 for all financial instruments except for long-term debt.

	As at December 31, 2019		As at March 31, 2019	
	Carrying Value	**Approximate Fair Value**	Carrying Value	Approximate Fair Value
Long-term debt, including current portion [1]	**1,459,921**	**1,834,556**	1,280,043	1,623,838

[1] Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Carrying value is measured at amortized cost using the effective interest rate method. Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statements of financial position, or by using available quoted market prices.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Financial instruments (continued):

The following items shown in the consolidated statements of financial position as at December 31, 2019 and March 31, 2019 are carried at fair value on a recurring basis using Level 1 or 2 inputs. There were no financial assets and liabilities at December 31, 2019, or at March 31, 2019, valued using Level 3 inputs.

	As at December 31, 2019		As at March 31, 2019	
	Level 1	**Level 2**	Level 1	Level 2
Asset (liability):				
Cash [1]	200,940	-	49,486	-
Cash equivalents [1]	26,469	-	472	-
Derivative assets [2]	-	3,469	-	8,145
Derivative liabilities [2]	-	(146)	-	-
	227,409	**3,323**	49,958	8,145

[1] Classified in Level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.

[2] Classified in Level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis. No amounts have been reclassified into or out of fair value classifications in the nine months ended December 31, 2019 or December 31, 2018.

During the nine months ended December 31, 2019 and December 31, 2018, unrealized gains or losses related to Level 2 derivatives have been recorded in OCI, and realized gains or losses related to Level 2 derivatives have been recorded in the statement of profit or loss.

There were no Level 3 instruments outstanding during the period.

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the period end dates.

9. Financial risk management:

Credit risk:

The Group is using the lifetime expected credit loss ("ECL") simplified approach as the method to determine the provision for impairment. The Group reviews for changes in circumstances at each reporting date.

Based on the historical default experience, the Group has established a lifetime ECL allowance of 1% of the trade receivables. Amounts due from the Government of Canada and the Province are considered low credit risk and are excluded. As at March 31, 2019, the provision for impairment was $0.1 million. During the nine months ended December 31, 2019, the Group recorded an additional provision of $0.1 million for a total of $0.2 million.

Based on historical default experience, financial position of the counterparties and estimating the probability of default, the lifetime ECL equals zero for the Group's restricted and other short-term investments.

The Group has a loan receivable with a term of 15 years, secured by a second mortgage. The collateral is expected to exceed the amount of the loan and be available while the loan is outstanding.

Fuel price risk:

The Group is exposed to risks associated with changes in the price of marine diesel fuel and LNG fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. The Group's Financial Risk Management Policy limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter; 85% of anticipated monthly fuel consumption for the period thereafter to the end of 36 month period; and to 70% of anticipated monthly fuel consumption for the period between 36 months and the end of the fifth performance term. Performance term five will commence April 1, 2020 and end on March 31, 2024.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its earnings (Note 16).

The Group hedges using CAD denominated ultra-low sulfur diesel ("ULSD") to reduce its exposure to changes in ULSD and foreign exchange risk components associated with forecast diesel fuel purchases. During the nine months ended December 31, 2019, the Group entered into ULSD fuel swap contracts with a notional value of $102.7 million CAD. The notional value of all fuel swap contracts outstanding as at December 31, 2019 was $111.8 million CAD (March 31, 2019: $50.6 million CAD). Hedge accounting was applied to these contracts.

9. Financial risk management (continued):

Fuel price risk (continued):

During the nine months ended December 31, 2019, open fuel swap contracts had unrealized hedging gains of $0.8 million recognized in OCI (December 31, 2018: unrealized hedging losses of $1.6 million). In addition, for closed fuel swap contracts, net realized hedging gains of $5.6 million were reclassified from reserves and included in the Group's fuel expense during the nine months ended December 31, 2019 (December 31, 2018: net realized hedging gains of $9.7 million). There was no hedge ineffectiveness during the nine months ended December 31, 2019 or in the comparative period in 2018.

Cash flow hedges:

	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Total
Fuel contracts (litres in thousands)	14,560	62,995	61,630	36,665	175,850
Contract price range ($/litre)	$0.6230 - $0.6336	$0.6280 - $0.6520	$0.6270 - $0.6499	$0.6225 - $0.6336	

(a) As at December 31, 2019, the Group's current derivative assets of $2,514,323 included fuel swap contracts of $2,508,818 and foreign exchange forward contracts of $5,505 (foreign exchange forward contracts notional value: $140,147). The Group's current derivative liabilities of $1,376 as at December 31, 2019, included foreign exchange forward contracts (foreign exchange forward contracts notional value: $364,119).

Fuel swap contracts as at December 31, 2019 were as follows:

				Fair value changes used for calculating hedge ineffectiveness	
	Notional value of the hedging instrument	Carrying value of the hedging instrument	Cash flow hedge reserve	Hedging instruments	Hedged items
Derivative assets:					
Current	40,973	2,509	2,509	2,509	2,513
Non-current	52,874	955	955	955	959
Derivative liabilities:					
Current	-	-	-	-	-
Non-current	17,937	145	145	145	145

(Tabular amounts expressed in thousands of Canadian dollars)

9. Financial risk management (continued):

Fuel price risk (continued):

(b) Cash flow hedge reserve (Note 10(a)):

	Three months ended December 31		**Nine months ended December 31**	
	2019	2018	**2019**	2018
Items recognized in cash flow hedge reserve:				
Unrealized gains (losses) in fuel swap contracts	**4,645**	(10,962)	**755**	(1,638)
Items reclassified from cash flow hedge reserve:				
Hedge losses on interest rate forward contract reclassified to net earnings	**62**	62	**186**	186
Realized hedge gains recognized in fuel swaps	**(1,240)**	(2,220)	**(5,575)**	(9,736)
Net change in cash flow hedge reserve	**3,467**	(13,120)	**(4,634)**	(11,188)

10. Reserves and other comprehensive income (loss):

(a) Continuity of reserves:

	Land revaluation reserves	**Employee future benefit revaluation reserves**	**Fuel swaps reserves**	**Interest rate forward contracts reserves**	**Total**
Balance as at March 31, 2019	16,879	(5,969)	8,138	(6,214)	12,834
Actuarial losses on post-employment benefit obligations	-	(126)	-	-	(126)
Derivatives designated as cash flow hedges (Note 9(b)):					
Increase in unrealized gain	-	-	755	-	755
Reclassification of realized gains	-	-	(5,575)	-	(5,575)
Amortization of loss	-	-	-	186	186
Balance as at December 31, 2019	**16,879**	**(6,095)**	**3,318**	**(6,028)**	**8,074**

(Tabular amounts expressed in thousands of Canadian dollars)

10. Reserves and other comprehensive income (loss) (continued):

(b) Other comprehensive income (loss):

	Three months ended December 31		Nine months ended December 31	
	2019	2018	**2019**	2018
Items that are or may be reclassified subsequently to net earnings:				
Hedge gains (losses) on fuel swaps (Note 9(b))	**4,645**	(10,962)	**755**	(1,638)
Items that will not be reclassified to net earnings:				
Actuarial losses on post-employment benefit obligations (Note 14)	**-**	-	**(126)**	-
Total other comprehensive income (loss)	**4,645**	(10,962)	**629**	(1,638)

11. Net retail:

	Three months ended December 31		Nine months ended December 31	
	2019	2018	**2019**	2018
Retail revenue	**23,868**	23,030	**88,491**	84,574
Cost of goods sold	**(9,285)**	(8,830)	**(33,242)**	(31,754)
Net retail	**14,583**	14,200	**55,249**	52,820

12. Operating expenses:

	Three months ended December 31		Nine months ended December 31	
	2019	2018	**2019**	2018
Salaries, wages and benefits	**97,549**	92,754	**311,849**	292,252
Fuel	**26,034**	26,364	**85,815**	87,320
Materials, supplies and contracted services	**20,109**	20,055	**65,103**	62,774
Other operating expenses	**16,125**	15,595	**47,688**	48,585
Depreciation and amortization	**45,913**	43,568	**136,375**	128,514
Total operating expenses	**205,730**	198,336	**646,830**	619,445

(Tabular amounts expressed in thousands of Canadian dollars)

13. Net finance expense:

	Three months ended December 31		Nine months ended December 31	
	2019	2018	**2019**	2018
Finance expenses:				
Long-term debt	**16,889**	15,794	**47,872**	47,359
Lease liabilities	**475**	469	**1,459**	1,416
Amortization of deferred financing costs and bond discounts	**289**	301	**863**	914
Other finance charges	**49**	56	**159**	455
Interest capitalized in the cost of qualifying assets	**(1,646)**	(1,907)	**(3,976)**	(5,191)
Total finance expenses	**16,056**	14,713	**46,377**	44,953
Finance income	**(2,520)**	(1,701)	**(5,201)**	(4,568)
Net finance expense	**13,536**	13,012	**41,176**	40,385

14. Accrued employee future benefits:

During the nine months ended December 31, 2019, the Group recognized total defined benefit costs of $1.6 million (December 31, 2018: $1.8 million).

During the nine months ended December 31, 2019, the Group recognized a loss of $0.1 million (December 31, 2018: $nil) in other comprehensive income reflecting an actuarial valuation as at March 31, 2019, for the residual liability for Worker’s Compensation Claims arising from the Workers’ Compensation Board deposit coverage system.

15. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the nine months ended December 31, 2019, the Group paid $176,384 (December 31, 2018: $100,383) of such expenses.

The Province owns the Group’s 75,477 non-voting preferred shares, but has no voting interest in either the Group or the Authority.

16. Economic effect of rate regulation:

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, in extraordinary situations, allow increases in price caps over the set levels.

In January 2014, the IASB issued IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 is an interim standard, pending the outcome of the IASB’s more comprehensive rate regulated activities project. The Standard addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities, such as the Group, that had already transitioned to IFRS. The Group transitioned to IFRS effective April 1, 2011, prior to the issuance of IFRS 14, and therefore does not recognize regulatory assets or liabilities.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Economic effect of rate regulation (continued):

As a result, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the regulatory assets at December 31, 2019, are probable of future recovery in tariff or fuel surcharges.

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At December 31, 2019 and March 31, 2019, tariffs charged to customers were below established price caps.

If the Group was permitted under IFRS to recognize the effects of rate regulation, the regulatory liabilities at December 31, 2019 would have been $2.5 million (March 31, 2019: regulatory assets of $4.5 million).

If the Group was permitted under IFRS to recognize the effects of rate regulations and to record regulatory assets and regulatory liabilities, net earnings for the three months ended December 31, 2019 would have been $1.0 million lower (December 31, 2018: $2.2 million higher) and during the nine months ended December 31, 2019 would have been $7.0 million lower (December 31, 2018: $5.7 million higher) as detailed below:

	Three months ended December 31		**Nine months ended December 31**	
Effect of rate regulation on net earnings	**2019**	2018	**2019**	2018
Regulatory accounts:				
Deferred fuel costs:				
Fuel costs over (under) set price	**634**	2,221	**(1,564)**	1,106
(Surcharges) rebates	**(1,620)**	-	**(5,440)**	4,584
Total (decrease) increase in net earnings	**(986)**	2,221	**(7,004)**	5,690